VZCZCXRO6986
PP RUEHKW
DE RUEHWR #0191/01 0501610
ZNY CCCCC ZZH
P 191610Z FEB 09
FM AMEMBASSY WARSAW
TO RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY
RUEHC/SECSTATE WASHDC PRIORITY 7842
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RUEHKW/AMCONSUL KRAKOW PRIORITY 2242

C O N F I D E N T I A L SECTION 01 OF 02 WARSAW 000191

SIPDIS

STATE PASS TO EUR/CE, EUR/ERA
USDOC FOR 4232/ITA/MAC/EUR HILLARY SMITH
TREASURY FOR STEVE WINN
STATE PLS PASS USTR

E.O. 12958: DECL: 02/18/2019
TAGS: ECON ETRD EINV PGOV PL
SUBJECT: AUTO WEAKNESS MANAGABLE, BUT EU-15 PROTECTIONISM
UNHELPFUL

REF: 08 WARSAW 1217

Classified By: Economic Counselor M. Sessums for reasons 1.4 (b) and (d
).

¶1. (U) Summary. Poland,s relatively well balanced economy has shielded Poles from the worst of the global financial crisis and recession, but weakening exports are finally bringing the global recession home. Automobile manufacturing, Poland,s largest export industry, began to weaken in September (reftel) and around 8,000 people have already or are expected to lose their jobs. Flexibility in the industry, cooperation in the industry-labor-government "Tripartite Commission", and a tight labor market have helped to cushion the blow on the domestic economy. Protectionism in high-cost Western Europe appears to have slowed expected production-shifting to Polish producers, a fight the Polish Government is gearing up to fight within the EU. End Summary.

Poland,s Export Giant Slows...

¶2. (U) In 2008, GM Opel, Fiat, Volkswagen, and a set of smaller manufactures produced nearly one million vehicles in Poland, the highest total ever (up 25 percent from 2007). Over 95 percent were exported, mostly to EU consumers but as far afield as the United Arab Emirates. The industry - the largest export industry in Poland - employs over one percent of the working population and accounted for around four percent of 2008 Gross Domestic Product.

¶3. (SBU) Job cuts started with a drastic reduction in the number of workers hired through temporary work agencies, and then through group lay-offs (e.g. Cooper Standard Automotive or MAN Trucks). The list of firms in the process or planning redundancies is getting longer every week. In 30 firms, at least 8,000 people lost or are about to lose jobs. According to Tony Villafranca, GM Opel plant manager in Gliwice, demand began to drop last year as Europeans returned home from their summer holidays to dismal economic news and the collapse of Lehman Brothers. Villafranca told CG Krakow and EconCouns, in his sunlit office (all lighting off the production floor appeared to be turned off), that he has eliminated 600 of his 2,400 jobs and is worried that he will have to cut more. Across the industry, 2009 output is expected to be 15-35 percent lower than 2008.

¶4. (SBU) That drop is spread unevenly. Fiat Auto Poland, the biggest car producer here, reports no reductions and expects production for 2009 to hold steady. Fiat produces mainly small cars (the Fiat 500) - for which demand has remained stable or increased. TRW Poland supplies components to car

makers throughout the industry. Nicole Bertram, TRW Poland,s Director General, says that while she has reduced shifts on most of her lines, production for Fiat,s factory is running all shifts.

...but the Pain is Manageable

¶5. (C) Three factors have helped to cushion the blow of weak auto exports on Poland. First, the industry has pivoted. Although Villafranca eliminated 600 positions, he in-sourced 400 positions from suppliers and gave voluntary buy-outs to another 100. Second, GM and others auto manufacturers approached the government before the Christmas holiday to propose changing Polish labor law to allow the companies to hold idle employees on now in exchange for lower future labor costs. The companies, labor unions, and government are negotiating legislation to that end in the Tripartite Social-Economic Commission (Tripartite Commission). Villafranca expects the group to reach consensus.

¶6. (SBU) Finally, the Polish economy itself is cushioning the blow. Well into the third quarter of this year, local economists were most concerned with wage-driven inflation. Wages grew by 9.4 percent in 2008. Most Polish cities enjoy full employment, and the national unemployment level is 6.5 percent as measured by Eurostat, the European Statistical Agency. The mayors of the Silesian cities of Gliwice and Katowice, the heart of Poland,s auto sector, both dismissed concerns about increasing unemployment. They point out that skilled workers released from auto production are easily absorbed into other industries, like coal mining and

construction. Silesia continues to enjoy full employment.

Protectionism Within the EU?

¶7. (U) Foreign Direct Investment (FDI) has driven growth in Poland,s auto sector. As global recession has taken hold, however, Poles see national protection within the EU slowing FDI. Poland's Foreign Investment Agency (PAIiIZ), for example, tells us that Poland was a lead candidate for a EUR 300 million Peugeot-Citroen (PSA) investment - a small engine plant to be completed in 2011. The investment plan stalled, however, when the French government pressured French car-makers not to move operations abroad as part of France,s auto-bailout plan.

¶8. (C) Moreover, we had expected to see production-shifting from Western Europe as a cost-saving measure of hard-pressed European producers. Many of our legal, financial, and corporate contacts report companies are already moving some work, quietly, from Western Europe to Poland. Dell is one noisy recent example, having announced in early January its plan to close its manufacturing operations in Ireland and move them to Poland. However, we cannot document production-shifting in the auto sector. GM's Gliwice plant, its most efficient worldwide, had expected to take on production from much higher-cost plants in Germany. Villafranca tells us that will not happen because, he speculated, GM Opel is "basically a German company" and will not risk the FRG,s displeasure by moving production from there to Poland.

¶9. (U) The Polish government is taking notice. Minister Michal Dowgielewicz - Secretary of the Committee for European Integration - told a conservative Polish daily February 18 that Poland will urge other new EU Member States to join it in saying "three 'no's to the states of the Old Union"; that is, no to closed labor markets, no to closed services markets, and no to protectionist practices." We will report more fully on the Poles' intentions septel.

Comment

¶10. (SBU) Weakness in Poland,s export markets has slowed auto manufacturing here, but the effect has been on the order of a fender-bender rather than a highway wreck. Of course, the global recession has not yet played itself out. Since Poland is importing weakness rather than generating it domestically, predictions of the economic future here are routinely caveated with qualifiers about external conditions, e.g., assuming the global recession does not deepen. And so with our assessment: assuming the global recession does not deepen and protectionism in Western Europe does not run rampant, export weakness will remain a manageable drag on the Polish economy.

¶11. (U) This cable was coordinated with CG Krakow.
ASHE